

Current Outsourcing Industries Status in China



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Abstract

China as the second biggest economic country, it becomes an ideal place for companies that want to outsource their businesses. China places an important role in outsourcing industries. In this research, it proves the truth that China has the power to lead the way in different perspectives.

Economic climate

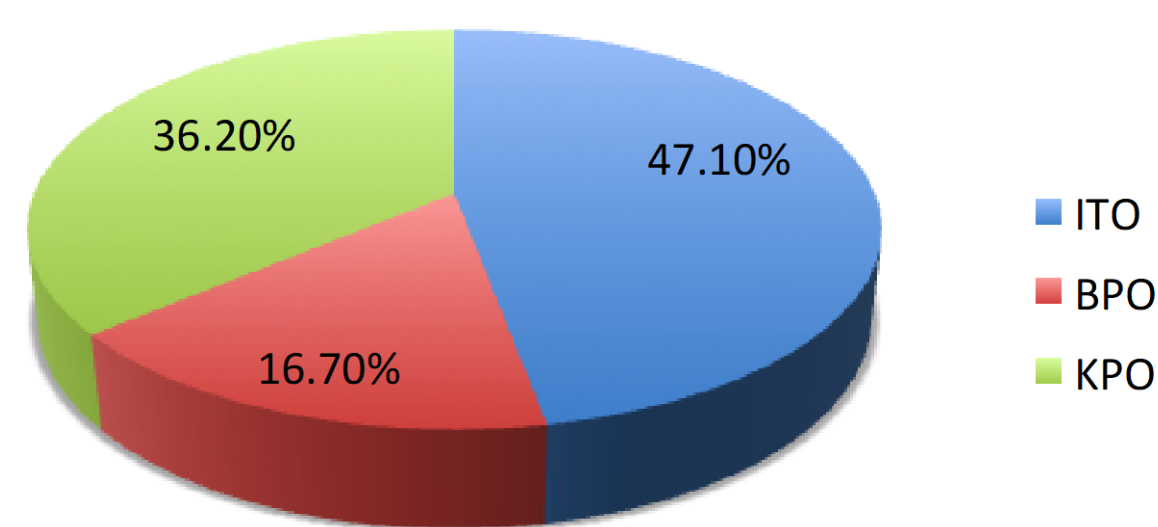
In the first half of 2018, economic growth has weakened due to the influence of US-led trade protectionism. Although China's economy has also been affected by the trade war, the development is stable. Overall, China's service industry production index has increased by 8% (Yang, 2018). From January to May in 2018, China's service exports increased by 13.3% and service imports increased by 11.4%. With service industries' expanding, the outsourcing industry has performed well, especially for the IT and related service industries(Yang, 2018).

Since the outbreak of the financial crisis in 2008, the domestic market growth of China's outsourcing has surpassed the development of the international market. The proportion of Chinese outsourcing industry has continuously improved. As the world's second largest economy, the stable and sustainable development has attracted many companies to invest in China. With the deepening of structural adjustment, "convergence" has become a new feature of outsourcing industry. (Yang, 2018)

Types of outsourcing services provided

Information technology outsourcing is still a dominant service provided by China's outsourcing industries. Knowledge process outsourcing is also developing rapidly. In January-April 2018, Information Technology Outsourcing (ITO) revenue was \$9.49 billion which increased 13.0% compared to last year. ITO revenue accounts for 47.1% of total outsourcing services. Business Process Outsourcing (BPO) revenue is \$3.37 billion which increased 21.0% compared to last year. BPO revenue accounts for 16.7% of total outsourcing services. Knowledge Process Outsourcing (KPO) revenue was 7.29 billion US dollars which increased 7.57% compared to last year. KPO accounts for 36.2% of total outsourcing services. (Zheng, 2018)

Market Share of Outsourcing Services in China



Due to the widespread use of new technologies, high value-added outsourcing businesses such as data analytics, biomedical R&D, inspection and testing, and engineering industry design are growing rapidly. The proportion of ITO, BPO and KPO has become more reasonable(Yang, 2018). Generally speaking, China's outsourcing industry has begun to develop in a balanced manner, and its business structure has changed regularly

Key service provider

The United States, Hong Kong, European Union countries, and Japan continue to be the main outsourcing market of China. Under the Belt and Road Initiative, Singapore has become the fourth largest outsourcing market of China (Chen, 2018). China has the closest partnership with Southeast Asian countries. Their cooperation with Russia, Mongolia, Central Asia, South and Eastern Europe and West Asia and North Africa has been growing rapidly. The cooperation between Singapore, the United Arab Emirates and Indonesia is very close. India has become a major outsourcing market along the "Belt and Road" (Chen, 2018).

Opportunities

Government policies

Since January 2009, China has promoted policies and measures to promote the development of outsourcing industries. Beijing, Tianjin, Shanghai, Chongqing, Guangzhou, Shenzhen, Wuhan, Dalian, Nanjing, Chengdu, Jinan, Xi'an, Harbin, Hangzhou, Hefei, Changsha and another 20 cities have been identified as China's outsourcing model cities that promote the development of global outsourcing business (Yang, 2018).



Note: Wright, N. (2016, March 03). *China's Emerging Role in Global Outsourcing*. Retrieved from <https://www.chinabusinessreview.com/chinas-emerging-role-in-global-outsourcing/>

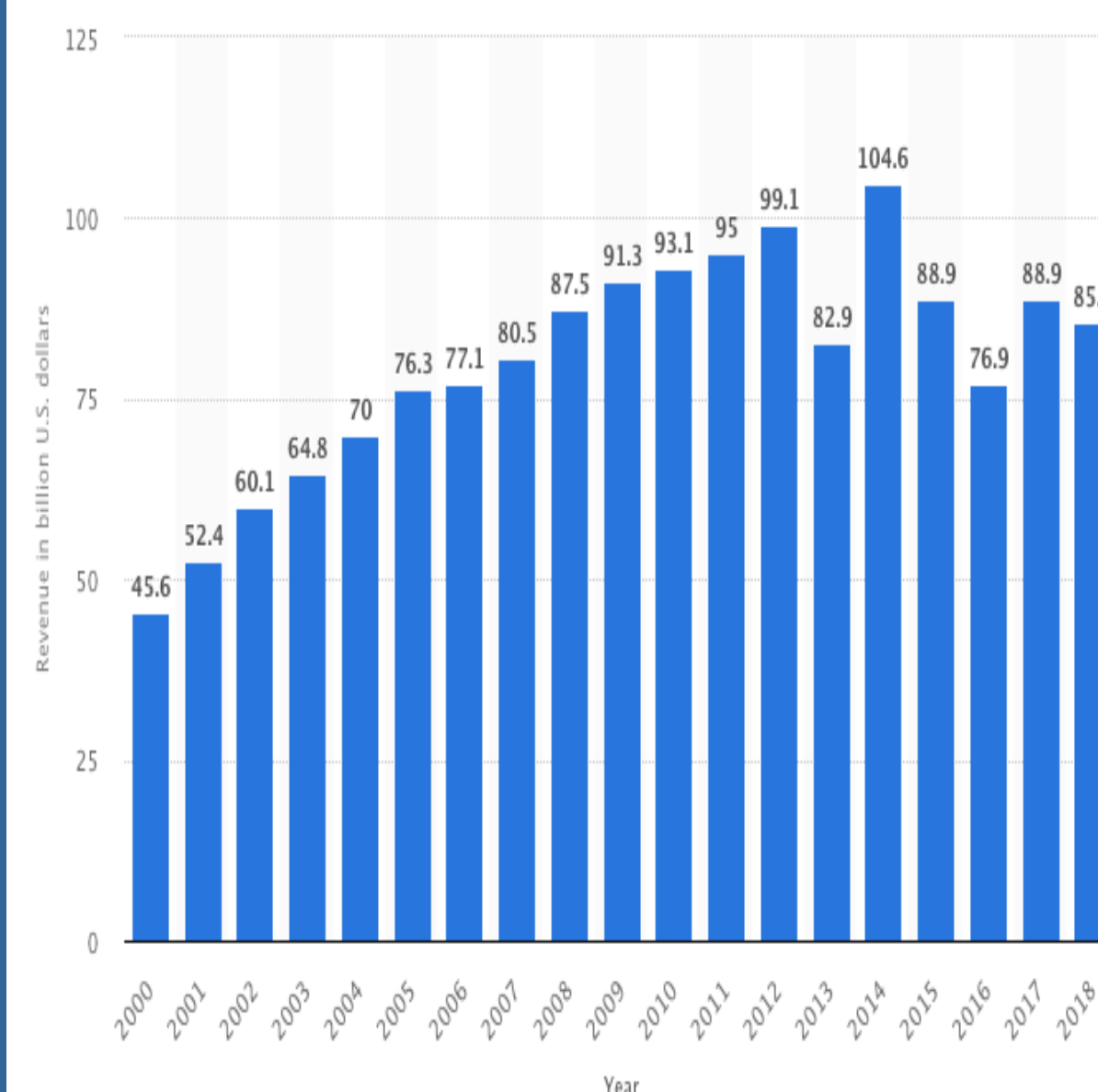
Broad market demand

China's domestic market itself has huge demand for outsourced software not only to meet the needs of China's own growing economy but also thousands of multinational companies that have many manufacturing bases in China.

Two types of outsourcing services in China

- Software outsourcing. From the perspective of specific business types, China's software outsourcing industry mainly includes application system development services, software testing and globalization services, and software product R&D outsourcing(Wright, 2016). In addition, according to IDC data, China's offshore software outsourcing revenue mainly comes from Japan, South Korea and Europe and the United States.
- Customer service. China's undertaking of business process outsourcing is still in its infancy. In the past year or two, with the increasing emphasis on business process outsourcing and the continuous improvement of the industrial development environment, China's business process outsourcing industry has entered a period of rapid development(Wright, 2016).

Global market size



Note: *Global outsourcing market size 2018* | Statistic. (n.d.). Retrieved from <https://www.statista.com/statistics/189788/global-outsourcing-market-size/>

Threats

Competition

From the perspective of service outsourcing providers worldwide, powerful service outsourcing companies are mainly concentrated in the United States and India(Wendell, 2009).

Awareness of intellectual property protection

China's intellectual property protection is not enough. The phenomenon of piracy in China is much more serious than that of outsourcing in developed countries. The concerns of multinational corporations about their intellectual property rights restrict the development of China's service outsourcing(Wendell, 2009).

Conclusion

The economic environment provides benefits to Chinese outsourcing industries. China has the advantage of low-cost labor and high-quality and specialized technical talents for the outsourcing service industry. China has continuously formulated specific policies to encourage the development of service outsourcing which reflects the government's determination to promote the development of China's outsourcing industry. Government policies are like shelters that protect those outsourcing industries from competitive outsiders. China has made itself become a competitive outsourcing market.

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